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INTRODUCTION

The Office of Internal Audit performed an audit of Michigan State Disbursement Unit (MiSDU). The objectives of our audit were: to determine if the ACH disbursements (Electronic Funds Transfers through the Automated Clearing House Network) made by the ACS State and Local Solutions, Inc. (Lockheed Martin IMS)/MiSDU accounting department were documented and sent to the correct payee; and evaluate the internal controls over the ACH disbursements.

The MiSDU accounting department currently utilizes software (ACH software) supplied by its bank to make disbursements directly to Friends-of-the-Court (FOC) and to employers. The ACH disbursements are made for various reasons including:

- Returning employer “pre-notes” sent to the MiSDU in order to get electronic funds transfers started.
- Returning employer funds sent to the MiSDU in error.
- MiSDU “make whole” payments to FOC to correct for funds disbursed by the MiSDU to the incorrect FOC. (Correct for a misapplied disbursement.)
- Forwarding funds received by the MiSDU that need to be sent to the FOC, but are not part of the MiSDU regular daily processing.

The MiSDU does not have the ability to write checks. The ACH software provides a means to make the disbursements. The ACH software is not part of the software used to process the regular daily disbursements to the FOC, and the disbursements are not part of the regular daily disbursements made to the FOC

SCOPE

We performed an audit of the ACH disbursements made by the MiSDU accounting department for the period from November 30, 2000 through April 30, 2001. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

We reconciled the ACH disbursements, as reported by the ACH software, to the bank reconciliation exception reports. Our purpose was to determine if the information provided to the Family Independence Agency (FIA) accountant for review of the daily bank reconciliation included enough detail so that she could detect any unusual ACH disbursements.

We obtained a description of the ACH disbursement process including acquisition of the payee account and routing numbers, data entry, and approval. We selected a sample of ACH disbursements and traced the account and routing numbers to the supporting documentation. We also obtained printouts of the System Audit Log to determine who entered and sent (approved) the disbursement, and if the appropriate account and routing number were used. In addition we evaluated the internal controls over the disbursements.

We also obtained a description of the ACH software user rights and software settings, and evaluated the internal controls over the use of the software to determine if they were adequate.

EXECUTIVE SUMMARY

Based on our review we conclude:

The FIA accountant would be able to detect any unusual ACH disbursements as part of the daily bank reconciliation.

The person who sent (approved) the disbursement did not always document their review of the supporting documentation.

All disbursements included in our sample were made to the appropriate account and routing numbers. The internal controls over obtaining the account and routing numbers appear to be adequate to ensure that the appropriate routing and account numbers are used.

The internal controls over the ACH software user rights and security are not adequate to prevent inappropriate activity.

ACS STATE AND LOCAL SOLUTIONS, INC. /MISDU RESPONSE

ACS State and Local Solutions, Inc./MISDU concurs with the Recommendations and indicated they have already made the necessary changes.

FINDINGS AND RECOMMENDATIONS:

ACH Disbursements-Exception Report

1. The MiSDU did not record all ACH disbursements and/or returns on the exception report. We found one instance where the exception report did not include a \$33.52 ACH disbursement and the bank's return of that disbursement. The only accounting record for ACH activity is the bank reconciliation exception report. The FIA accountant, to detect any unusual ACH disbursements, can use

the exception report. The FIA accountant's ability to detect an unusual ACH transaction is reduced if a transaction is not recorded.

Control over the ACH disbursements is improved by the fact that the FIA accountant, who reviews the MiSDU accounting department's bank reconciliation, can see the ACH disbursements on the bank statement and relate them to activity on the exception report. The FIA accountant would not know if each ACH disbursement had been made to the appropriate account or routing numbers, but awareness of the transactions reduces the possibility of an undetected inappropriate disbursement.

WE RECOMMEND the MiSDU record every individual ACH disbursement and/or return on the exception report.

ACH Disbursements-Separation of Duties

2. The MiSDU did not follow its data entry and approval procedures for all ACH disbursements. Five ACH disbursements were entered and approved by the same person. The current ACH software usage procedures require that one person enter the ACH disbursement into the software and a different person approve (send) the disbursement. (Also see the Software User rights section below.)

WE RECOMMEND the MiSDU follow its data entry and approval procedures.

ACH Disbursements-Sign-off

3. The MiSDU did not maintain the required sign-off documentation for all ACH disbursements. The person who sent (approved) the disbursement did not always document their review of the supporting documentation. The current ACH

software usage procedures require the person approving (sending) the ACH disbursement to sign-off on the supporting documentation.

WE RECOMMEND the MiSDU follow its sign-off procedures.

ACH Software User Rights

4. The administrative rights to the ACH software are inappropriately assigned to personnel who process ACH transactions. The MiSDU finance manager has administrative rights to the ACH software. There are no restrictions on the finance manager's use of the software. The finance manager can input and send (approve) a disbursement, create users, assign user rights, and choose the software settings. Administrative rights have also been assigned to the Assistant Project Manager. The Assistant Project Manager acts as a backup to the finance manager for this purpose.

User rights, as currently set in the software, allow personnel to both enter and approve a transaction. The finance manager indicated that the accountant could not enter and approve a transaction because of restrictive settings in the software. However, we found an instance where the accountant did enter and send (approve) a transaction. Personnel at the bank that supplied the software to the MiSDU informed us that the requirement that a batch must be approved is set for each batch, and is not a specific user right that can be given or removed.

WE RECOMMEND that the administrative rights be removed from anyone who actually processes the disbursements, such as the finance manager and accountant, and be assigned to MiSDU computer security personnel.

WE ALSO RECOMMEND that the MiSDU assign software settings and access rights to enforce the separation of duties described in Finding #2 above.

IN ADDITION WE RECOMMEND that the MiSDU determine the specific software functions needed to enter, approve, send, and report; and assign each employee only the functions needed to perform their duties.